BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Application of Kansas City Power & Light Company for Authority to Issue Debt Securities.	)))	Case No. EF-2008-0214

STAFF RECOMMENDATION TO CONDITIONALLY AUTHORIZE
KANSAS CITY POWER & LIGHT COMPANY TO ISSUE DEBT SECURITIES

Comes now the Staff of the Missouri Public Service Commission and recommends the Commission, subject to conditions, grant Kansas City Power & Light Company's (KCP&L) application for authority to issue debt securities as follows:

1. In Case No. EF-2005-0498 the Commission approved KCP&L's financing plan for the 2005-2009 period, subject to conditions the Staff recommended, and authorized KCP&L to issue up to $635 million principal amount of debt securities through December 31, 2009.

2. With this application KCPL&L seeks to increase from $635 million to $1.4 billion the amount of the debt securities it is authorized by the Commission to issue through December 31, 2009.

3. The Commission has jurisdiction over KCP&L's issuance of debt. Sections 393.180 and 393.200 RSMo 2000.

4. In the attached Memorandum (Appendix A), the Missouri Public Service Commission Financial Analysis Department Staff (Staff) recommends the Commission conditionally authorize KCP&L to issue new debt securities through December 31, 2009 in principal amount not exceeding $1.4 billion pending receipt of the definite terms of issuance and subject to the following nine conditions, which are substantially the same as the conditions the Staff recommended and the Commission imposed in Case No. EF-2005-0498:

a. That the Company shall submit to the Financial Analysis Office of the Commission any information concerning deviations from the stated use of the funds or any information that would materially change the pro-forma capitalization and financial ratios associated with this Application.

b. That the interest rate for any debt issuance covered by the Application is not to exceed nine (9) percent.

c. That the Company shall submit to the Financial Analysis Office of the Commission any information concerning communication with credit rating agencies concerning these issuances.

d. That the Application is approved for the purposes stated in the Application and not for operating expenses.

e. That at no time will the Company's total borrowings, including all instruments, exceed its regulated rate base.

f. That KCP&L shall file with the Commission within ten (10) days of the issuance of any debt securities authorized pursuant to a Commission order in this proceeding, a report including the amount of debt securities issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.

g. That KCP&L shall provide the Commission Staff an update of the Company's financial condition on or before September 1, 2009 related to the Company's short-term debt balance discussed in paragraph 11 of the Application.

h. That nothing in the Commission's order is to be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.

i. That at no time during the term of this authorization shall KCP&L use the debt authority granted by the Commission to manage its debt-to-capitalization ratio in a fashion inconsistent with the Stipulation and Agreement of KCP&L's Experimental Regulatory Plan in Case No. EO-2005-0329, i.e., in a manner that would jeopardize its credit rating.

Wherefore, the Staff recommends the Commission conditionally authorize Kansas City Power & Light Company to issue new debt securities through December 31, 2009 in principal amount not exceeding $1.4 billion, pending receipt of the definite terms of issuance, and subject to the nine conditions stated in the Staff's memorandum and restated above.

Respectfully submitted,

/s/ Nathan Williams

Nathan Williams
Deputy General Counsel
Missouri Bar No. 35512

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 1st day of February 2008.

/s/ Nathan Williams

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. EF-2008-0214, Kansas City Power and Light Company

FROM: Matthew Barnes, Financial Analysis Department

/s/ Matthew Barnes 01/31/08 /s/ Nathan Williams 01/31/08

Project Coordinator / Date General Counsel's Office / Date

SUBJECT: Staff Recommendation concerning the Application of Kansas City Power & Light Company ("Company or KCP&L"), for Authority to increase from $635 million to $1.4 billion the authorization to issue debt securities granted by the Missouri Public Service Commission (Commission) in Case No. EF-2005-0498. Applicant also requests authority to enter into interest rate hedging instruments in conjunction with the additional debt securities to be issued under this authorization.

DATE: January 31, 2008

1. (a) **Type of Issue:** Unsecured or secured debt securities.

(b) **Amount:** $1,400,000,000.

(c) **Rate:** Interest rates on the debt securities, represented by either (i) the coupon on fixed rate debt securities or (ii) the initial rate on any variable or remarketed debt securities, will not exceed nine percent (9%).

2. **Proposed Date of Transaction:** As appropriate given market conditions over the 2008-2009 period.

3. (a) **Statement of Purpose of the Issue:** "Proceeds of the securities will be used by Applicant to refinance outstanding short-term debt and to continue implementing the Comprehensive Energy Plan described in the Stipulation" in Case No. EO-2005-0329, "In the Matter of a Proposed Experimental Regulatory Plan of Kansas City Power & Light Company."

(b) **From a financial perspective, does Staff deem this Statement of Purpose of the Issue reasonable?:**

Yes X No

4. **Copies of executed instruments defining terms of the proposed securities:**

___ (a) If such instruments have been previously filed with the Commission, a reference to the Case Number in which the instruments were furnished.

_X_ (b) If such instruments have not been executed at the time of filing, a statement of the general terms and conditions to be contained in the instruments, which are proposed to be executed.

___ (c) If no such instruments are either executed or to be executed, a statement of how the securities are to be sold.

5. **Certified copy of resolution of the directors of applicant, or other legal documents authorizing the issuance of the securities reviewed:**

Yes _X_ No

6. **Pro-forma Balance Sheet and Income Statement reviewed:**

Yes _X_ No

7. **Capital expenditure schedule reviewed:**

Yes _X_ No

8. **Journal entries are required to be filed by the Company to allow for the Fee Schedule to be applied:**

Yes _X_ No

9. **Recommendation of the Staff:**

_____ Grant by session order (see Comments)

_X_ Conditional Approval granted pending receipt of definite terms of issuance (see Comments)

____ Require additional and/or revised data before approval can be granted (see Comments)

____ Formal hearing required (see Comments)

____ Recommend dismissal (see Comments)

SUMMARY:

KCP&L, a wholly owned subsidiary of Great Plains Energy Incorporated, is a regulated provider of energy-related products and services for homes, businesses, industries, and municipalities in the Kansas City metropolitan area. KCP&L serves nearly 500,000 customers in 24 counties in northwestern Missouri and eastern Kansas, a territory of about 4,600 square miles. Delivering that power requires 1,700 miles of transmission lines, more than 10,000 miles of overhead distribution lines, and approximately 3,400 miles of underground distribution lines.

On December 27, 2007, KCP&L filed an Application with the Missouri Public Service Commission (Commission) requesting approval for authority to issue debt securities in an amount up to $1.4 billion. The Company states in its Application:

> 3. …On November 3, 2005 in Case No. EF-2005-0498, the Commission authorized Applicant to issue up to $635 million principal amount of debt securities through December 31, 2009 (the "2005 Financing Authority").
>
> 8. As of September 30, 2007, Applicant's long-term indebtedness (excluding current maturities and including unamortized discounts and FAS 133 impacts) was $1,003.4 million, represented by (i) $196.5 million of Pollution Control Bonds, Series 2005 and Series 2007A and 2007B; (ii) $648.1 million of Senior Unsecured Notes; and (iii) $158.8 million of General Mortgage Bonds pledged in support of Pollution Control Bonds.
>
> 9. Applicant had $405.1 million of short-term indebtedness (including $146.5 million of current maturities) outstanding on September 30, 2007.
>
> 11. The 2005 Financing Authority addressed KCP&L's anticipated financing and refinancing requirements for the 2005-2009 period, as outlined in Appendix B of the Stipulation. Given the projected changes in the cost of the capital investments contemplated in the Stipulation and Applicant's desire for conditional flexibility to issue long-term debt in 2009 to finance 2010 requirements, Applicant herein seeks authority to increase the principal amount of debt securities authorized in the 2005 Financing Authority from $635 million to $1.4 billion through December 31, 2009. As reflected in Applicant's 2008-2010 projected financing plan contained in Exhibit 4 attached to this application, Applicant projects a need to issue debt securities in an amount of up to approximately

** __________ ** over the period. Of that amount, $135 million will be comprised of outstanding, but as of yet unused, authorization under the 2005 Financing Authority and ** __________ ** will be comprised of the additional authorization sought herein. Applicant is providing a schedule of projected capital expenditures over the 2008 – 2010 period as Exhibit 5 attached to this application.

Applicant does not seek herein to extend the December 31, 2009 timeframe contemplated in the 2005 Financing Authority; however, the additional authorization sought by Applicant contemplates the ability to issue up to ** __________ ** of debt securities in the fourth quarter of 2009 related to Applicant's 2010 requirements. Applicant considers this flexibility essential during periods of high capital spending given the limitations on Applicant's ability to access the debt capital markets in a given calendar year imposed by normal-course blackout periods surrounding the filing of Applicant's 10-K and 10-Q reports. Without the ability to consider "pre-funding" future requirements with long-term debt, such limitations, coupled with a high "run rate" of capital spending, may require the Applicant to rely unduly heavily on short-term borrowings for a period of time.

Applicant expects that it would consider issuing up to ** __________ ** of long-term debt related to 2010 requirements between October 1 and December 31, 2009 only if Applicant's total short-term debt outstanding at September 30, 2009 was greater than ** __________ **. Applicant believes that a level of short-term borrowings below ** __________ ** as of September 30, 2009, would provide sufficient flexibility to fund cash requirements related to 2010 capital needs with short-term debt until Applicant was able to complete a long-term debt offering in 2010.

14. The debt securities will have maturities of one year to 40 years and will be issued by the Applicant or through agents or underwriters for the Applicant in multiple offerings of differing amounts with different interest rates (including variable interest rates) and other negotiated terms and conditions. Interest rates on the debt securities, represented by either (i) the coupon on fixed rate debt securities or (ii) the initial rate on any variable or remarketed debt securities, will not exceed nine percent (9%).

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16. Applicant also requests authority to enter into interest rate hedging instruments in conjunction with the additional debt securities to be issued under this authorization. Applicant anticipates potentially using such hedging instruments for two purposes: (1) To "lock in" the key underlying rate of an upcoming debt issuance in advance of the issuance itself; and (2) At the time of debt issuance, to change the interest rate mode on the issued security from floating to fixed or vice versa, depending on Applicant's desired mix of fixed and floating rate debt. Depending on investor appetite at the time of issuance, it is sometimes more economical to issue floating rate securities and swap them to a fixed rate or cap them at some interest rate, rather than issue fixed rate securities. Alternatively, it may be more economical to issue fixed rate securities and swap them to floating rather than issue floating rate securities. By having the flexibility to use hedging instruments to alter the interest rate from that on the debt securities issued to the market, Applicant will be able to optimize the cost of the debt. Because the Applicant's decision to use interest rate hedging instruments is dependent on market conditions at the time the debt securities are issued, both the use and cost of hedging instruments is difficult to forecast. Interest rate swaps require no upfront costs, while any upfront costs associated with the use of interest rate caps and/or and collars, would be expected to be partially or fully offset by the economic saving resulting from their use. Although Applicant has authority from the Commission provided in Case No. EF-2005-0388 to enter into interest rate hedging instruments, the purpose of that authority is to manage the portfolio of variable rate debt, particularly pollution control bonds that the Applicant currently has outstanding. The authority requested in this application would be limited to using interest rate hedging instruments solely in conjunction with the debt securities approved herein. Applicant has taken this approach in its past three Financing Applications and has received Commission authority on that basis.

17. As with the 2005 Financing Authority, Applicant will use the proceeds of the securities to refinance outstanding short-term debt and to continue implementing the Comprehensive Energy Plan described in the Stipulation.

FINANCIAL ANALYSIS

On November 30, 2007 Standard and Poor's (S&P) released an article, "U.S. Utilities Ratings Analysis Now Portrayed in the S&P Corporate Ratings Matrix" that discusses the change to assigning business risk profiles to utility companies. S&P's previous methodology utilized a business risk profile scale of 1 to 10 with 1 being the least risky and 10 being the most risky. S&P's new scale now assigns business risk categories to utility companies as Excellent, Strong, Satisfactory, Weak, and Vulnerable as well as a Financial Risk Profile (FRP) of Minimal, Modest, Intermediate, Aggressive, and Highly Leveraged. Please see Attachment A for a more complete explanation. KCP&L's current credit rating is BBB and is assigned a Business Risk Profile of 'Strong' and a Financial Risk Profile of 'Intermediate' by S&P.

Staff reviewed the pro-forma financial statements and three key financial ratios provided by the Company in response to Staff Data Requests 0002 and 0004. The three key financial ratios are Funds From Operations (FFO) Interest Coverage, FFO as a Percentage of Average Total Debt, and Total Debt to Total Capital. Staff compared the components to S&P's new scale and results of the Company's calculations. Staff determined that KCP&L's pro-forma FFO Interest Coverage of ** ___ **times is within the FRP range of Intermediate to Aggressive and because KCP&L has a business risk profile of Strong, this is consistent with an A- to BBB- under S&P's new rating scale. The pro-forma FFO as a Percentage of Average Total Debt of ** ___ ** percent is within the FRP range of Aggressive and because KCP&L has a business risk profile of Strong, this is consistent with a BBB- under S&P's new rating scale. The pro-forma Total Debt to Total Capital of ** ___ **percent is within the FRP range of Aggressive to Highly Leveraged and because KCP&L has a business risk profile of Strong, this is consistent with a BBB- to BB- under S&P's new rating scale. Please see Attachment B for calculations and results.

Staff determined that KCP&L's pro-forma financial ratios are consistent with the Company's current credit rating of BBB. Staff recommends that the Commission approve the Application submitted by KCP&L in this case subject to the following conditions:

1. That the Company shall submit to the Financial Analysis Office of the Commission any information concerning deviations from the stated use of the funds or any information that would materially change the pro-forma capitalization and financial ratios associated with this Application.

2. That the interest rate for any debt issuance covered by the Application is not to exceed nine (9) percent.

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3. That the Company shall submit to the Financial Analysis Office of the Commission any information concerning communication with credit rating agencies concerning these issuances.
4. That the Application is approved for the purposes stated in the Application and not for operating expenses.
5. That at no time will the Company's total borrowings, including all instruments, exceed its regulated rate base.
6. That KCP&L shall file with the Commission within ten (10) days of the issuance of any debt securities authorized pursuant to a Commission order in this proceeding, a report including the amount of debt securities issued, date of issuance, interest rate (initial rate if variable), maturity date, redemption schedules or special terms, if any, use of proceeds, estimated expenses, portion subject to the fee schedule and loan or indenture agreement concerning each issuance.
7. That KCP&L shall provide the Commission Staff an update of the Company's financial condition on or before September 1, 2009 related to the Company's short-term debt balance discussed in paragraph 11 of the Application.
8. That nothing in the Commission's order is to be considered a finding by the Commission of the value of this transaction for rate making purposes, and that the Commission reserves the right to consider the rate making treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding.
9. That at no time during the term of this authorization shall KCP&L use the debt authority granted by the Commission to manage its debt-to-capitalization ratio in a fashion inconsistent with the Stipulation and Agreement of KCP&L's Experimental Regulatory Plan in Case No. EO-2005-0329, i.e., in a manner that would jeopardize its credit rating.

Attachments: A Standard and Poor's Ratings Direct Report
B Pro-Forma Financial Ratios

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November 30, 2007

U.S. Utilities Ratings Analysis Now Portrayed In The S&P Corporate Ratings Matrix

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Attachment A

U.S. Utilities Ratings Analysis Now Portrayed In The S&P Corporate Ratings Matrix

The electric, gas, and water utility ratings ranking lists published today by Standard & Poor's U.S. Utilities & Infrastructure Ratings practice are categorized under the business risk/financial risk matrix used by the Corporate Ratings group. This is designed to present our rating conclusions in a clear and standardized manner across all corporate sectors. Incorporating utility ratings into a shared framework to communicate the fundamental credit analysis of a company furthers the goals of transparency and comparability in the ratings process. Table 1 shows the matrix.

Table 1

Business Risk/Financial Risk

	Financial Risk Profile				
Business Risk Profile	**Minimal**	**Modest**	**Intermediate**	**Aggressive**	**Highly leveraged**
Excellent	AAA	AA	A	BBB	BB
Strong	AA	A	A-	BBB-	BB-
Satisfactory	A	BBB+	BBB	BB+	B+
Weak	BBB	BBB-	BB+	BB-	B
Vulnerable	BB	B+	B+	B	B-

The utilities rating methodology remains unchanged, and the use of the corporate risk matrix has not resulted in any changes to ratings or outlooks. The same five factors that we analyzed to produce a business risk score in the familiar 10-point scale are used in determining whether a utility possesses an "Excellent," "Strong," "Satisfactory," "Weak," or "Vulnerable" business risk profile:

- Regulation,
- Markets,
- Operations,
- Competitiveness, and
- Management.

Regulated utilities and holding companies that are utility-focused virtually always fall in the upper range ("Excellent" or "Strong") of business risk profiles. The defining characteristics of most utilities--a legally defined service territory generally free of significant competition, the provision of an essential or near-essential service, and the presence of regulators that have an abiding interest in supporting a healthy utility financial profile--underpin the business risk profiles of the electric, gas, and water utilities.

As the matrix concisely illustrates, the business risk profile loosely determines the level of financial risk appropriate for any given rating. Financial risk is analyzed both qualitatively and quantitatively, mainly with financial ratios and other metrics that are calculated after various analytical adjustments are performed on financial statements prepared under GAAP. Financial risk is assessed for utilities using, in part, the indicative ratio ranges in table 2.

Table 2

Financial Risk Indicative Ratios - U.S. Utilities

(Fully adjusted, historically demonstrated, and expected to consistently continue)

	Cash flow		Debt leverage
	(FFO/debt) (%)	**(FFO/interest) (x)**	**(Total debt/capital) (%)**
Modest	40 - 60	4.0 - 6.0	25 - 40
Intermediate	25 - 45	3.0 - 4.5	35 - 50
Aggressive	10 - 30	2.0 - 3.5	45 - 60
Highly leveraged	Below 15	2.5 or less	Over 50

The indicative ranges for utilities differ somewhat from the guidelines used for their unregulated counterparts because of several factors that distinguish the financial policy and profile of regulated entities. Utilities tend to finance with long-maturity capital and fixed rates. Financial performance is typically more uniform over time, avoiding the volatility of unregulated industrial entities. Also, utilities fare comparatively well in many of the less-quantitative aspects of financial risk. Financial flexibility is generally quite robust, given good access to capital, ample short-term liquidity, and the like. Utilities that exhibit such favorable credit characteristics will often see ratings based on the more accommodative end of the indicative ratio ranges, especially when the company's business risk profile is solidly within its category. Conversely, a utility that follows an atypical financial policy or manages its balance sheet less conservatively, or falls along the lower end of its business risk designation, would have to demonstrate an ability to achieve financial metrics along the more stringent end of the ratio ranges to reach a given rating.

Note that even after we assign a company a business risk and financial risk, the committee does not arrive by rote at a rating based on the matrix. The matrix is a guide--it is not intended to convey precision in the ratings process or reduce the decision to plotting intersections on a graph. Many small positives and negatives that affect credit quality can lead a committee to a different conclusion than what is indicated in the matrix. Most outcomes will fall within one notch on either side of the indicated rating. Larger exceptions for utilities would typically involve the influence of related unregulated entities or extraordinary disruptions in the regulatory environment.

We will use the matrix, the ranking list, and individual company reports to communicate the relative position of a company within its business risk peer group and the other factors that produce the ratings.

ATTACHMENT B

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

Application of Kansas City Power & Light	)	
Company for Authority to Issue Debt	)	Case No. EF-2008-0214
Securities.	)	

AFFIDAVIT OF MATTHEW BARNES

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Matthew Barnes, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

Matthew Barnes

Matthew Barnes

Subscribed and sworn to before me this 31st day of January, 2008.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
County of Cole
My Commission Exp. 07/01/2008

D Suzie Mankin

Notary Public